

# HB 5194

## House Energy Policy Committee

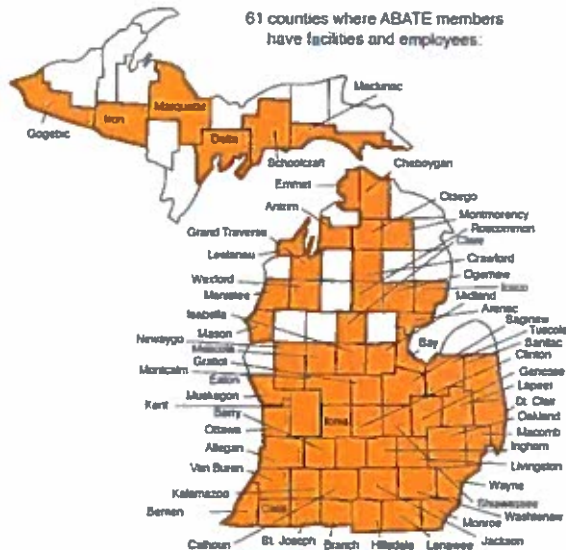
Testimony of the Association of  
Businesses Advocating Tariff Equity  
("ABATE")

March 6, 2018

### The Impact of ABATE Members

More than \$3.5 billion in payroll  
More than \$79.2 million in taxes  
More than 88,000 employees

61 counties where ABATE members  
have facilities and employees.



## Basic Ratemaking Formula

**Revenue Requirement =**

Operating Costs + Rate Base x *Rate of Return*

➤ Rate of Return:

- 1) Interest on debt
- 2) Authorized return on equity

3

**What does return on equity (“ROE”) represent?**

- Return on equity = Profit
- Compensates shareholders
- Barometer of risk

4

## **How is return on equity established?**

- Proxy groups + financial formulas
- Very subjective
- MPSC has broad discretion

5

## **What does HB 5194 do?**

- Limits authorized returns on equity to the national average.
- MPSC must investigate overearnings.
- Establishes a refund period to protect customers from excessive overearnings.
  - The MPSC is unable to set rates retroactively.

6

## Why is HB 5194 needed?

- MPSC consistently authorizes inflated returns on equity.
- Utilities' "earned" returns on equity routinely outpace their "authorized" returns on equity.
  - Results in excessive rates for utility customers in Michigan.

7

## Consumers Energy

Utility	Case No.	Effective Date of New Rates	Authorized ROE	National Average ROE	Difference (basis points)	Excess Annual Revenue
CECo - Elec.	U-17980	3/7/2017	10.10%	9.74%	36	\$24,599,988
CECo - Elec.	U-17735	12/1/2015	10.30%	9.85%	45	\$30,749,985
CECo - Elec.	U-17087	5/18/2013	10.30%	10.03%	27	\$18,449,991
CECo - Elec.	U-16784	6/8/2012	10.30%	10.17%	13	\$8,883,329
CECo - Elec.	U-16191	11/5/2010	10.70%	10.37%	33	\$22,549,989
CECo - Elec.	U-15645	11/13/2009	10.70%	10.52%	18	\$12,299,994
CECo - Elec.	U-15245	8/13/2008	10.70%	10.41%	29	\$19,816,657
CECo - Elec.	U-14347	1/10/2006	11.15%	10.32%	83	\$56,716,639
CECo - Gas	U-18124	8/7/2017	10.10%	9.72%	38	\$11,400,000
CECo - Gas	U-17882	4/22/2016	Not stated	9.54%	N/A	N/A
CECo - Gas	U-17643	1/14/2015	10.30%	9.60%	70	\$21,000,000
CECo - Gas	U-16855	6/8/2012	10.30%	9.94%	36	\$10,800,000
CECo - Gas	U-16418	5/27/2011	10.50%	9.92%	58	\$17,400,000
CECo - Gas	U-15986	5/18/2010	10.55%	10.15%	40	\$12,000,000
CECo - Gas	U-15506	12/23/2008	10.55%	10.39%	16	\$4,800,000
CECo - Gas	U-15190	8/21/2007	10.75%	10.22%	53	\$15,900,000

8

## DTE Energy

Utility	Case No.	Effective Date of New Rates	Authorized ROE	National Average ROE	Difference (basis points)	Excess Annual Revenue
DTE - Elec.	U-18014	2/7/2017	10.10%	9.74%	36	\$31,799,988
DTE - Elec.	U-17767	12/17/2015	10.30%	9.85%	45	\$39,749,985
DTE - Elec.	U-16472	10/29/2011	10.50%	10.29%	21	\$18,549,993
DTE - Elec.	U-15768	1/26/2010	11.00%	10.37%	63	\$55,649,979
DTE - Elec.	U-15244	1/14/2009	11.00%	10.52%	48	\$42,399,984
DTE - Elec.	U-14838	9/5/2006	11.00%	10.32%	68	\$60,066,644
DTE - Gas	U-17999	12/16/2016	10.10%	9.54%	56	\$13,066,648
DTE - Gas	U-16999	1/1/2013	10.50%	9.68%	82	\$19,133,306
DTE - Gas	U-15985	6/4/2010	11.00%	10.15%	85	\$19,833,305
DTE - Gas	U-13898	4/29/2005	11.00%	10.41%	59	\$13,766,647

9

## Authorized ROE v. Earned ROE

- What is the difference?
  - *Authorized ROE* = level of profit that the MPSC has determined is reasonable.
  - *Earned ROE* = level of profit that the utility actually earned.
- What is the significance?
  - In theory, Authorized ROE = Earned ROE
  - In Michigan, Earned ROE > Authorized ROE

10

Consumers Energy - Electric			
Month Year	Earning ROE	Authorized ROE	Difference (basis points)
Jan. 2015	10.54%	10.30%	24
Feb. 2015	10.47%	10.30%	17
Mar. 2015	10.30%	10.30%	2
Apr. 2015	10.21%	10.30%	-9
May. 2015	10.00%	10.30%	-30
Jun. 2015	9.87%	10.30%	-63
Jul. 2015	10.22%	10.30%	-7
Aug. 2015	10.97%	10.30%	27
Sep. 2015	10.94%	10.30%	26
Oct. 2015	10.71%	10.30%	41
Nov. 2015	10.78%	10.30%	48
Dec. 2015	11.40%	10.30%	110
Jan. 2016	11.29%	10.30%	99
Feb. 2016	11.20%	10.30%	90
Mar. 2016	11.18%	10.30%	88
Apr. 2016	11.35%	10.30%	105
May. 2016	11.63%	10.30%	123
Jun. 2016	11.72%	10.30%	145
Jul. 2016	11.67%	10.30%	127
Aug. 2016	11.89%	10.30%	166
Sep. 2016	12.14%	10.30%	184
Oct. 2016	12.20%	10.30%	199
Nov. 2016	12.11%	10.30%	181
Dec. 2016	11.19%	10.30%	85
Jan. 2017	11.49%	10.30%	116
Feb. 2017	11.30%	10.30%	100
Mar. 2017	11.68%	10.10%	156
Apr. 2017	11.60%	10.10%	145
May. 2017	11.31%	10.10%	121
Jun. 2017	11.00%	10.10%	90

Year	Average Over Earning (basis points)	Excess Earnings
2015	16	\$10,933,328
2016	132	\$90,199,956
2017	121	\$82,583,293

11

DTE Electric			
Month Year	Earning ROE	Authorized ROE	Difference (basis points)
Jan. 2015	10.50%	10.50%	0
Feb. 2015	10.90%	10.50%	30
Mar. 2015	10.95%	10.50%	10
Apr. 2015	10.50%	10.50%	0
May. 2015	10.40%	10.50%	-10
Jun. 2015	9.80%	10.50%	-70
Jul. 2015	10.40%	10.50%	-10
Aug. 2015	10.30%	10.50%	-20
Sep. 2015	11.00%	10.50%	50
Oct. 2015	10.60%	10.50%	0
Nov. 2015	10.10%	10.50%	-40
Dec. 2015	10.00%	10.30%	-30
Jan. 2016	9.50%	10.30%	-40
Feb. 2016	9.80%	10.30%	-50
Mar. 2016	9.80%	10.30%	-70
Apr. 2016	9.80%	10.30%	-70
May. 2016	9.80%	10.30%	-80
Jun. 2016	10.10%	10.30%	-20
Jul. 2016	10.60%	10.30%	30
Aug. 2016	11.40%	10.30%	110
Sep. 2016	11.30%	10.30%	100
Oct. 2016	11.80%	10.30%	120
Nov. 2016	11.40%	10.30%	110
Dec. 2016	10.80%	10.30%	60
Jan. 2017	10.80%	10.30%	50
Feb. 2017	10.50%	10.30%	20
Mar. 2017	10.40%	10.10%	30
Apr. 2017	10.40%	10.10%	30
May. 2017	10.40%	10.10%	30
Jun. 2017	10.30%	10.10%	20

Year	Average Over Earning (basis points)	Excess Earnings
2015	-8	-\$7,066,664
2016	17	\$15,016,661
2017	30	\$26,499,990

12

## How much are basis points worth?

- Varies by utility.
- Depends on capital structure.

Utility	≈ \$/bp
CECo Electric	\$683,333
CECo Gas	\$300,000
DTE Electric	\$883,333
DTE Gas	\$233,333

13

## Why do *earned* returns on equity exceed *authorized* returns on equity in Michigan?

- Scare tactics regarding reliability
- Exaggerated claims regarding risk
- Pleas regarding capital attraction
- Regulators tend to be risk adverse
- Laws favor utilities over customers

14

## Will HB 5194 harm utilities?

- Utilities across the country provide reliable service with lower ROEs.

Electric Utility	Authorized ROE (2017)
Otter Tail Power (MN)	9.41%
Northern States Power (MN)	9.20%
Virginia Electric & Power	9.40%
Kentucky Utilities Co.	9.70%
Norther States Power (WI)	9.80%

15

## Excessive Profits ≠ Stronger Bond Ratings

TABLE 2			
S&P Ratings by Rating			
Description	2016	Consumers	DTE
Regulated			
A or higher	6%		
A-	27%		
BBB+	39%	BBB+	BBB+
BBB	16%		
BBB-	10%		
Below BBB-	2%		
Total	100%		

Source: EEI Q1 2017 Credit Ratings, Tab V – S&P Rating by Comp. Category.

*Excessive profits have produced no benefits to Michigan customers!*

16



## Risk-Mitigation Mechanisms Available

- Projected test years
- Abridged rate cases
- Certificates of Necessity
- Revenue Decoupling Mechanisms
- Trackers/Riders/Surcharges

17

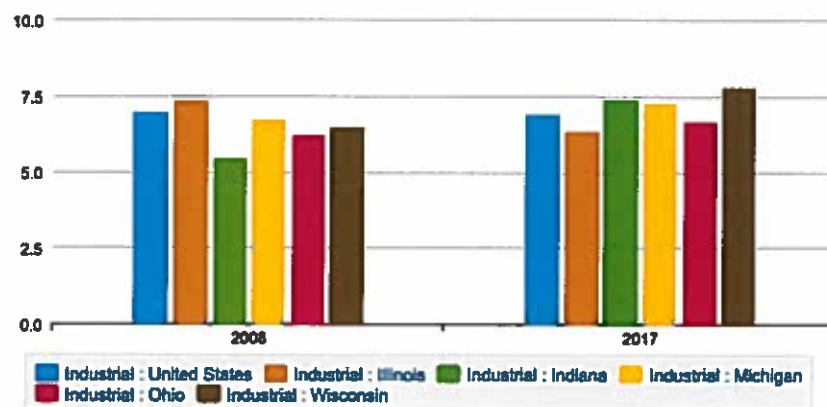
## Evidence of excessive profits?



## INDUSTRIAL

### Average retail price of electricity, Annual

cents per kilowatthour



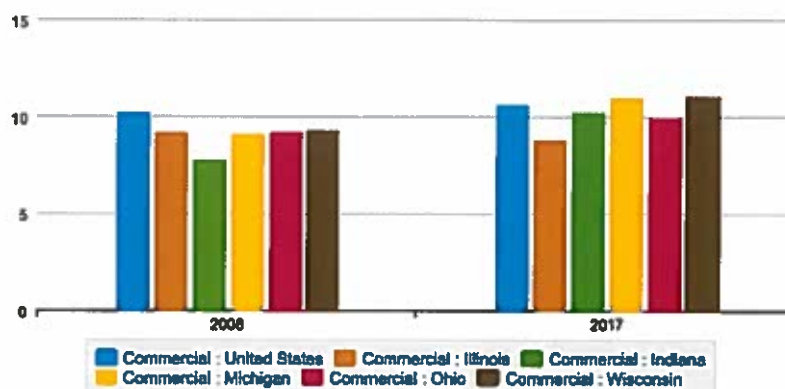
Data source: U.S. Energy Information Administration

19

## COMMERCIAL

### Average retail price of electricity, Annual

cents per kilowatthour



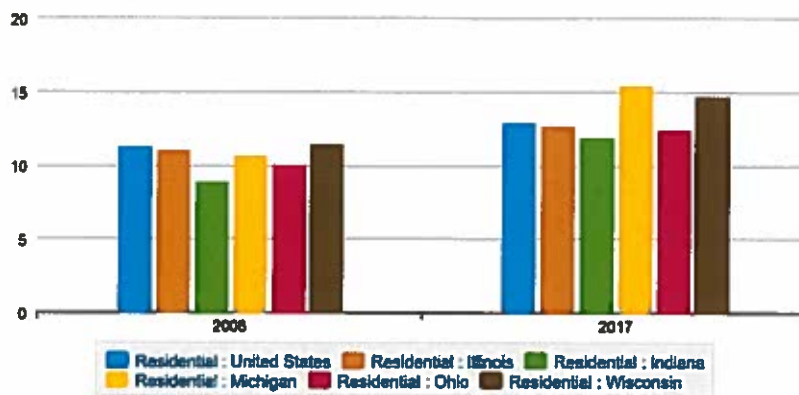
Data source: U.S. Energy Information Administration

20

## RESIDENTIAL

### Average retail price of electricity, Annual

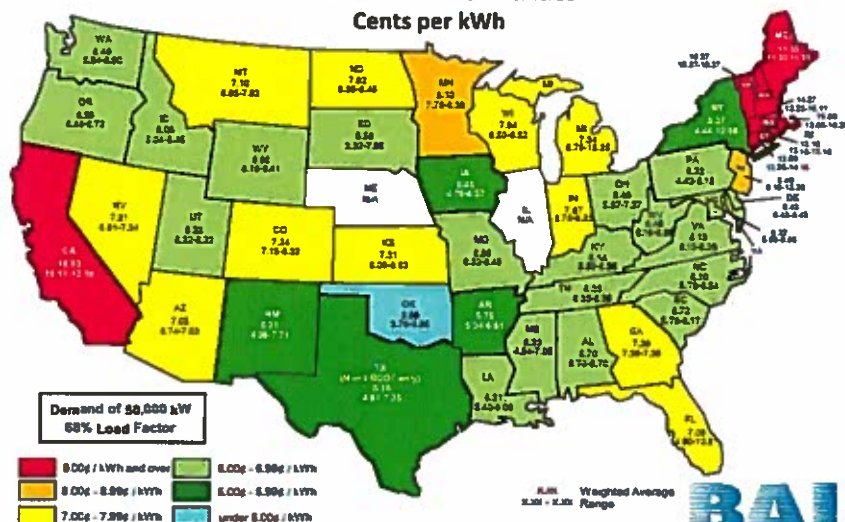
cents per kilowatthour



Data source: U.S. Energy Information Administration

21

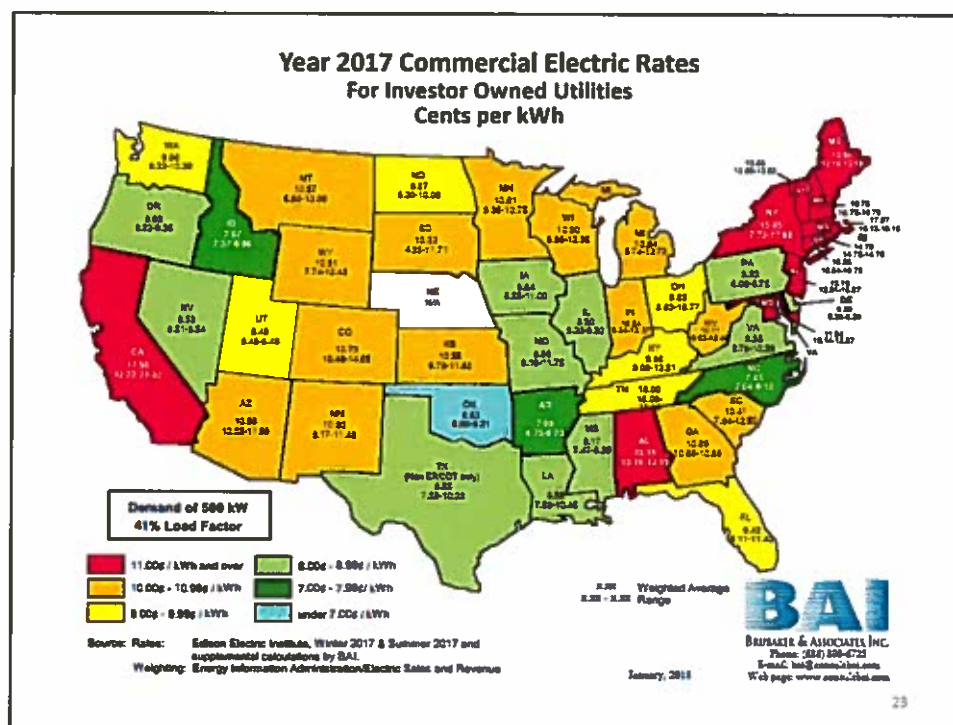
### Year 2017 Industrial Firm Power Rates For Investor Owned Utilities Cents per kWh



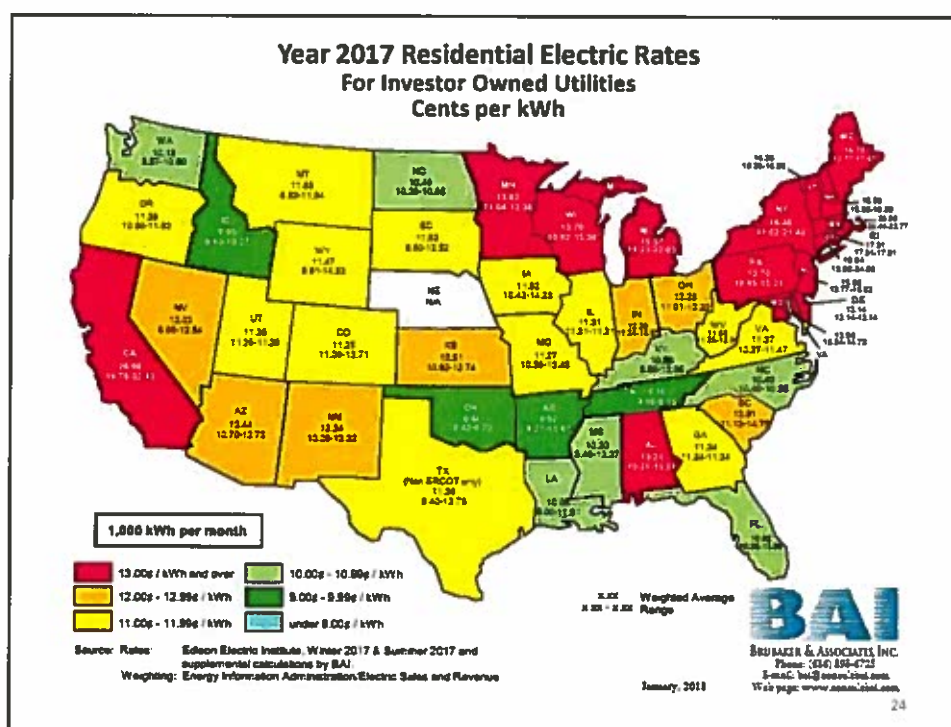
Source: Rates: Edison Electric Institute, Winter 2017 & Summer 2017 and supplemental calculations by BAI.  
Weighting: Energy Information Administration Electric Sales and Revenue

January, 2018

22



23



24

**Questions?**

25